

CITY OF KREBS, OKLAHOMA

ANNUAL FINANCIAL REPORT

JUNE 30, 2013

Ralph Osborn  
Certified Public Accountant  
500 South Chestnut  
P.O. Box 1015  
Bristow, Oklahoma 74010-1015

## INDEPENDENT AUDITOR'S REPORT

The Honorable Members of the Board of Trustees  
City of Krebs, Oklahoma

### Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Krebs, Oklahoma as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Krebs, Oklahoma's basic financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statement.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Krebs, Oklahoma as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

The City of Krebs, Oklahoma has not presented Management's Discussion and Analysis or budgetary comparisons that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

### *Other Information*

My audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise City of Krebs, Oklahoma's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated January 20, 2015, on my consideration of City of Krebs, Oklahoma's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Krebs, Oklahoma's internal control over financial reporting and compliance.



Ralph Osborn  
Certified Public Accountant  
Bristow, Oklahoma  
January 20, 2015

CITY OF KREBS, OKLAHOMA  
STATEMENT OF NET ASSETS  
JUNE 30, 2013

	Primary government		
	Governmental	Business	
	Activities	Type	Total
		Activities	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 715,335	\$ 205,726	\$ 921,061
Interest receivable	186	-	186
Due from other governments	129,500	-	129,500
Accounts receivable, net	-	74,385	74,385
Prepaid Insurance	-	16,063	16,063
Internal balances	125,767	(125,767)	-
Total current assets	970,788	170,407	1,141,195
Non-current assets:			
Restricted and Committed Cash	-	147,927	147,927
Capital assets, net (Note 3.E.):			
Land and construction in progress	-	3,000	3,000
Other capital assets net of depreciation	437,289	4,095,813	4,533,102
Total non-current assets	437,289	4,246,740	4,684,029
Total assets	1,408,077	4,417,147	5,825,224
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	48,076	46,059	94,135
Deposit subject to refund	-	41,377	41,377
Notes payable	-	50,791	50,791
Total current liabilities	48,076	138,227	186,303
Non-current liabilities:			
Notes payable	-	727,089	727,089
Total non-current liabilities	-	727,089	727,089
Total liabilities	48,076	865,316	913,392
NET ASSETS:			
Capital Assets, Net of Related Debt	437,289	3,320,933	3,758,222
Restricted for debt service	-	82,872	82,872
Committed for meter deposits	-	65,055	65,055
Unrestricted	922,712	82,971	1,005,683
Total net assets	\$1,360,001	\$3,551,831	\$ 4,911,832

The accompanying notes are an integral part of this financial statement.

CITY OF KREBS, OKLAHOMA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2013

FUNCTION/PROGRAMS	Net (Expense) Revenue and Changes in Net Assets					
	Primary Government					
	Expenses	Charges For Services	Operating Grants	Governmental Activities	Business Type Activities	Total
Governmental activities						
Administration	\$ 494,664	\$ 3,826	\$ -	\$ (490,838)	\$ -	\$ (490,838)
Public safety	694,333	-	4,777	(689,556)	-	(689,556)
Transportation	230,014	-	-	(230,014)	-	(230,014)
Community service	32,167	-	-	(32,167)	-	(32,167)
Health and welfare	24,097	-	-	(24,097)	-	(24,097)
Culture and education	18,564	-	-	(18,564)	-	(18,564)
Total governmental activities	<u>1,493,839</u>	<u>3,826</u>	<u>4,777</u>	<u>(1,485,236)</u>	<u>-</u>	<u>(1,485,236)</u>
Business-type activities						
Utilities	959,581	799,185	-	-	(160,396)	(160,396)
Total business-type activities	<u>959,581</u>	<u>799,185</u>	<u>-</u>	<u>-</u>	<u>(160,396)</u>	<u>(160,396)</u>
Total primary government	<u>\$2,453,420</u>	<u>\$803,011</u>	<u>\$ 4,777</u>	<u>\$ (1,485,236)</u>	<u>\$ (160,396)</u>	<u>\$ (1,645,632)</u>
General revenues						
Taxes:						
Sales and use				765,525	-	765,525
Franchise				47,145	-	47,145
Cigarette				9,210	-	9,210
Liquor				11,473	-	11,473
Gas				4,381	-	4,381
Commercial vehicle				11,052	-	11,052
Ad Valorem				3,024	-	3,024
Motel				6,116	-	6,116
Fines & court fees				730,858	-	730,858
Investment income				1,289	2,034	3,323
Transfers				-	-	-
Loss on sold/wrecked assets, net				1,427	-	1,427
Miscellaneous				21,872	-	21,872
Total general revenues				<u>1,613,372</u>	<u>2,034</u>	<u>1,615,406</u>
Change in net assets				128,136	(158,362)	(30,226)
Net assets - beginning				<u>1,231,865</u>	<u>3,710,193</u>	<u>4,942,058</u>
Net assets - ending				<u>\$1,360,001</u>	<u>\$3,551,831</u>	<u>\$4,911,832</u>

The accompanying notes are an integral part of this financial statement.

CITY OF KREBS, OKLAHOMA  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2013

	General Fund	Street And Alley Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 599,110	\$ 116,225	\$ 715,335
Receivables:			
Accrued Interest	186	-	186
Due from other governments	127,595	1,905	129,500
Due from other funds	<u>125,767</u>	<u>27,826</u>	<u>153,593</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 852,658</u></b>	<b><u>\$ 145,956</u></b>	<b><u>\$ 998,614</u></b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 48,076	\$ -	\$ 48,076
Due to other funds	<u>27,826</u>	<u>-</u>	<u>27,826</u>
<b>TOTAL LIABILITIES</b>	<b><u>75,902</u></b>	<b><u>-</u></b>	<b><u>75,902</u></b>
<b>FUND BALANCES</b>			
Nonspendable	225,722	29,731	255,453
Assigned	-	116,225	116,225
Unassigned	<u>551,034</u>	<u>-</u>	<u>551,034</u>
<b>TOTAL FUND BALANCES</b>	<b><u>776,756</u></b>	<b><u>145,956</u></b>	<b><u>922,712</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 852,658</u></b>	<b><u>\$ 145,956</u></b>	
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation			<u>437,289</u>
Net assets of Governmental Activities			<b><u>\$1,360,001</u></b>

The accompanying notes are an integral part of this financial statement.

CITY OF KREBS, OKLAHOMA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Street And Alley Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 842,493	\$ 15,433	\$ 857,926
Grants	4,777	-	4,777
Fines and court fees	730,858	-	730,858
Investment income	913	376	1,289
License and permits	3,826	-	3,826
Miscellaneous	54,693	-	54,693
Total revenues	<u>1,637,560</u>	<u>15,809</u>	<u>1,653,369</u>
Expenditures:			
Administration	527,396	-	527,396
Public safety	761,995	-	761,995
Transportation	217,358	-	217,358
Community services	26,366	-	26,366
Health and welfare	24,097	-	24,097
Culture and education	18,564	-	18,564
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	<u>1,575,776</u>	<u>-</u>	<u>1,575,776</u>
Excess (deficiency) of revenue over expenditures	61,784	15,809	77,593
Fund balances, beginning	<u>714,972</u>	<u>130,147</u>	<u>845,119</u>
Fund balances, ending	<u><u>\$ 776,756</u></u>	<u><u>\$ 145,956</u></u>	<u><u>\$ 922,712</u></u>

The accompanying notes are an integral part of this financial statement.





CITY OF KREBS, OKLAHOMA  
STATEMENT NET ASSETS - PROPRIETARY FUND  
JUNE 30, 2013

	Krebs Utility Authority
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 205,726
Accounts receivable, net	74,385
Prepaid Insurance	<u>16,063</u>
Total current assets	<u>296,174</u>
Non-current assets	
Restricted and Committed Cash	147,927
Land	3,000
Other capital assets, net of depreciation	<u>4,095,813</u>
Total non-current assets	<u>4,246,740</u>
Total assets	<u>4,542,914</u>
LIABILITIES:	
Current liabilities:	
Accounts payable	46,059
Due to other funds	125,767
Deposits subject to refund	41,377
Notes payable	<u>50,791</u>
Total current liabilities	<u>263,994</u>
Non-current liabilities:	
Notes payable	<u>727,089</u>
Total non-current liabilities	<u>727,089</u>
Total liabilities	<u>991,083</u>
NET ASSETS:	
Capital Assets, net of related debt	3,320,933
Restricted for Debt Service	82,872
Committed for Meter Deposits	65,055
Unrestricted	<u>82,971</u>
Total net assets	<u><u>\$ 3,551,831</u></u>

The accompanying notes are an integral part of this financial statement.

CITY OF KREBS, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>Public Works</u>
OPERATING REVENUES:	
Water	\$ 288,259
Sewer	271,201
Sanitation	215,549
Surcharges	7,750
Penalties	14,029
Other	<u>2,397</u>
Total operating revenues	<u>799,185</u>
OPERATING EXPENSES:	
Wages	168,891
Payroll taxes	16,279
Employee benefits	7,589
Testing/other	14,207
Insurance	14,086
Maintenance and supplies	276,517
Fees & Licenses	2,809
Sanitation	208,187
Office	8,724
Water purchases	5,578
Professional fees	13,518
Utilities	52,710
Depreciation expense	<u>136,295</u>
Total operating expenses	<u>925,390</u>
Net Operating Loss	<u>(126,205)</u>
NON-OPERATING REVENUES (EXPENSES)	
Investment income	2,034
Interest expense	<u>(34,191)</u>
Total non-operating revenues (expenses)	<u>(32,157)</u>
Change in net assets	(158,362)
Total net assets, beginning	<u>3,710,193</u>
Total net assets, ending	<u><u>\$ 3,551,831</u></u>

The accompanying notes are an integral part of this financial statement.

CITY OF KREBS, OKLAHOMA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>Public Works</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 809,571
Payments to suppliers	(528,924)
Payments to employees	(192,759)
Net Cash Provided by Operating Activities	<u>87,888</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	-
Principal paid on capital debt	(48,682)
Interest paid on capital debt	(34,191)
(Increase) decrease in restricted cash	16,035
Net Cash Used in Capital and Related Financing Activities	<u>(66,838)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	<u>2,034</u>
Net Cash Provided by Investing Activities	<u>2,034</u>
Net Increase in Cash and Cash Equivalents	23,084
Cash and Cash Equivalents, beginning of the year	<u>182,642</u>
Cash and Cash Equivalents, ending of the year	<u><u>\$ 205,726</u></u>
RECONCILIATION OF OPERATING (LOSS) TO NET	
CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ (126,205)
Adjustments to reconcile operating income to	
net cash provided by operating activities:	
Depreciation expense	136,295
Changes in assets and liabilities:	
(Increase)decrease in accounts receivables, net	6,886
(Increase)decrease in prepaid insurance	(3,021)
Increase(decrease) in accounts payable	4,449
Increase(decrease) in due to	65,984
Increase(decrease) in deposits subject to refund	3,500
Cash Provided by Operating Activities	<u><u>\$ 87,888</u></u>

The accompanying notes are an integral part of this financial statement.

CITY OF KREBS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Krebs, Oklahoma (City) complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the City are discussed below:

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statement should include:
  - a. A Management Discussion and Analysis (MD&A) section providing analysis of the City's overall financial position and results of operations. However, the City has chosen not to present the required (MD&A) for the current year.
  - b. Financial statements prepared using full accrual accounting for all of the City's activities, except for including the General capital assets or infrastructure (roads, bridges, etc.).
2. A change in the fund financial statements to focus on major funds.

These and other fund changes are reflected in the accompanying financial statements (including the notes to the financial statements). The City has elected to implement the general provisions of the Statement and report infrastructure acquired after July 1, 2003 as provided by GASB standards.

A. Financial Reporting Entity:

The City of Krebs, Oklahoma is a municipal corporation incorporated under the laws of Oklahoma. In evaluating how to define the City of Krebs, for the financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestations of the ability are financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise

CITY OF KREBS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
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oversight responsibilities. The Krebs Utility Authority is considered a component unit of the City of Krebs and it has been included in the financial statements. The City provides water, sewer and sanitation services as authorized by its charter.

The financial statements of the City of Krebs have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

The accounting policies of the City conform to GAAP as applicable to governmental units. The Proprietary fund applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

B. Basis of Presentation - Fund Accounting:

The accounts of the City of Krebs are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund or account group are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues and expenses or expenditures. The individual funds account for the government resources with laws, regulations, or other restrictions. The following funds and group of accounts are used by the City:

Government Fund Types:

*General Fund:*

The General Fund is the general operating fund of the City. All financial resources, except those required to be accounted for in a separate fund, are accounted for in the General Fund.

*Special Revenue Funds:*

These funds are established to account for the proceeds of specific revenue sources other than special assessments, expendable trusts, or major capital projects that are legally restricted to expenditures for specified purposes.

*Street and Alley:*

The street and alley fund was created under O.S. 11, Section 17-212 which requires each municipality to deposit all monies received under the motor fuel tax and motor vehicle license and registration tax into said fund. Expenditures from this account shall be made as earmarked and provided by law.

CITY OF KREBS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
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*Capital Projects Funds:*

These funds are established to account for major capital expenditures not financed by Enterprise Funds, Internal Service Funds, or Trust Funds.

Proprietary Fund Types:

This type of fund accounts for operations that are organized to be self-supporting through user charges. The fund included in this category is the Enterprise Fund.

*Enterprise Fund - Krebs Utilities Authority:*

The enterprise fund accounts for operations that are operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges.

C. Basis of Accounting

Governmental Funds, Expendable Trust Funds and Agency Funds utilize the modified accrual basis of accounting. Under this method, revenues are recognized in the accounting periods in which they become both available and measurable. Licenses and permits, fines and forfeits, royalties, charges for services and miscellaneous revenues are recorded when earned (when they are measurable and available). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except expenditures for debt service, prepaid expenses, and other long-term obligations which are recognized when paid. The City of Krebs does not have any expendable trust funds or agency funds.

All Proprietary Funds, Nonexpendable Trust Funds, and Pension Trust Funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Interest on revenue bonds, proceeds of which are used in financing the construction of certain assets, is capitalized during the construction period net of interest on the investment of unexpected proceeds. The City of Krebs does not currently have any revenue bonds; however, the City does have a loan in which interest was capitalized during the construction period.

The accounting policies of the City conform to Generally Accepted Accounting Principles (GAAP) as applicable to governmental units. The Proprietary fund applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements in which case, GASB prevails.

CITY OF KREBS, OKLAHOMA  
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D. Budgetary Data:

The City adopts an annual budget for all funds established by the governing body as required by O.S. 11 Section 17-207 through 17-210. State statutes also require that the budget be adopted by resolution or per the city charter at the legal level of classification (fund, department, and object category) and that the budget be filed with the County Clerk and the State Auditor and Inspector. The City may transfer budgeted amounts within and among departments. The budget is prepared on a cash basis.

E. Encumbrances:

Encumbrances represent commitments related to unperformed contracts for goods or services. Municipalities are prohibited by state statute from approving encumbrances which would exceed the current fund balance of any fund. All unencumbered budget appropriations lapse at the end of the fiscal year.

F. Inventory of Supplies:

Inventory of supplies is not reported on the financial statements of the city. The amount of inventory on hand is not known, but is believed to be not material to the financial statements.

G. Cash:

The City of Krebs maintains separate bank accounts for each fund. Each type's cash is displayed on the combined balance sheet as "Cash and Cash Equivalents" under each fund's caption. The City conducts all of its banking and investment transactions with a depository bank.

H. Receivables:

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be un-collectable.

I. Investments:

Statutes authorize the City to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. In addition, the City can invest in direct debt securities of the United States unless an investment is expressly prohibited by law. The fair value of the certificates is the same as cost value.

City of Krebs investments consist of eight certificates of deposit.

For purposes of the statement of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

CITY OF KREBS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
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J. Due to and Due from Other Funds:

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period which transactions are executed.

K. Interest Receivable:

Interest on investments is recorded as revenue in the year the interest is earned.

L. Restricted Cash and Investments:

Restricted cash of the City of Krebs consists of customer deposits and the required loan accounts held in the trust department of the First National Bank in McAlester.

M. Property, Plant and Equipment:

Fixed assets used in governmental fund type operations are accounted for in the General Fixed Assets Group. Public domain infrastructure general fixed assets consisting of certain improvements other than buildings, such as road signs, bridges, curbs and gutters, street and sidewalks, drainage and lighting systems, and similar assets, are not capitalized. Property, plant, and equipment acquired or constructed for general governmental operations are recorded as expenditures in the fund making the expenditure and capitalized at cost in the General Fixed Assets Group.

Property, plant, and equipment acquired for proprietary funds are capitalized in the respective fund to which it applies. Property and equipment are stated at cost.

Where cost can be determined from the available records, estimated historical cost is used to record the estimated value of the assets. Assets acquired by gift or bequest are recorded at their fair market value at the date of transfer.

Depreciation of exhaustible fixed assets used by the proprietary fund is charged as an expense against operations, and accumulated depreciation is reported on the proprietary fund's balance sheet. Depreciation has provided over the estimated useful lives using the straight-line method.

Estimated useful lives are as follows:

Buildings	40 years
Equipment	10 years
Water and Sewer System	40 years
Furniture and Fixtures	10 years
Vehicles	5 years

The disposal of fixed assets is recorded by removing the cost and accumulated depreciation from the accounts and charging the related gain or loss to income.



CITY OF KREBS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
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N. Fund Equity:

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for the governmental funds represent the amount that has been legally identified for specific purposes. Unreserved retained earnings for proprietary funds represent the net assets available for future operations or distribution. Reserved retained earnings for proprietary funds represent net assets that have been legally identified for specific purposes.

O. Vacation, Sick Leave, and Other Compensated Absences:

The City of Krebs has a vacation policy offering five days after the first year of the fourth (4<sup>th</sup>) year, through nine (9) years of service, employees thereafter accrue vacation leave at the rate of two weeks per year. After completion of the ninth (9<sup>th</sup>) year of service will thereafter accrue vacation leave at the rate of ten (10) hours per month or three (3) weeks per year. Employees shall be allowed to carry over one (1) week of unused vacation leave earned in the current year.

The City of Krebs has a sick leave policy of nine (9) days after the first year of employment for all city employees. In addition, up to three (3) days of sick leave may be granted for illness of children of the employee no longer residing with the immediate family, the employee's father, mother, father-in-law and mother-in-law. Unused accrued sick leave will be carried over until the point of termination or resignation and paid at the rate of one to one. Unused accrued sick leave may be claimed for pay at the end of each year at the rate of three (3) days of sick leave for one (1) day of pay.

P. Total Columns on Combined Financial Statements:

The total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

Q. Property Tax Revenues:

The county assessor, upon receipt of the certification of tax levies from the county excise board, extends the tax levies on the tax roll for submission to the county treasurer prior to October 1. The county treasurer must commence tax collection within fifteen (15) days of receipt of the tax rolls. The first half of taxes is due prior to January 1. The second half is due prior to April 1. The City of Krebs currently is not levying any property taxes.

CITY OF KREBS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
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R. Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - CASH AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the City will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the City, and are held by counterparty or the counterparty's trust department but not in the name of the City. The City's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of June 30, 2013, all of the City's deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The City had deposits at financial institutions with a carrying amount of approximately \$1,068,988 at June 30, 2013. The bank balance of the deposits at June 30, 2013 was approximately \$1,112,753.

Credit Risk

Fixed-income securities are subject to credit risk. However, the City did not have fixed income securities at June 30, 2013.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Trustees monitor's the investment performance on an ongoing basis to limit the City's interest rate risk. As of June 30, 2013, the City's deposits consisted of demand deposits and certificates of deposit with a maturity of 13 months or less.

NOTE 3 - RESTRICTED CASH

The Krebs Utility Authority has restricted cash consisting of customer meter deposits and loan accounts held in the trust service at the First National Bank in McAlester. The accounts and account balances at June 30, 2013 at First National Bank and meter deposit are as follows:

Meter Deposit	\$ 65,055
Rural Development	82,872
Total Restricted	<u>\$ 147,927</u>

CITY OF KREBS, OKLAHOMA  
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**NOTE 4 - CAPITAL ASSETS**

PRIMARY GOVERNMENT Governmental Activities:	Balance at July 1, 2012	Additions	Disposals	Balance at June 30, 2013
Other capital assets:				
Buildings	\$ 238,878	\$ 21,876	\$ -	\$ 260,754
Other Improvements	28,963	11,890	-	40,853
Machinery & Equipment	249,559	100,476	(56,235)	293,800
Total Other Capital Assets at Hist Cost	517,400	134,242	(56,235)	595,407
Less Accumulated Depreciation for:				
Buildings	32,846	5,972	-	38,818
Other Improvements	4,605	3,120	-	7,725
Machinery & Equipment	93,203	43,213	(24,841)	111,575
Total Accumulated Depreciation	130,654	52,305	(24,841)	158,118
Capital Assets, Net	\$ 386,746	\$ 81,937	\$ (31,394)	\$ 437,289
Capital Assets not being Depreciated:				
Land and Construction in Progress	3,000	-	-	3,000
Total Capital Assets not Depreciated	3,000	-	-	3,000
Other Capital Assets				
Buildings	-	-	-	-
Other Improvements	5,799,656	-	-	5,799,656
Machinery & Equipment	-	-	-	-
Total Other Capital Assets at Hist Cost	5,799,656	-	-	5,799,656
Less Accumulated Depreciation for:				
Buildings	\$ -	\$ -	\$ -	\$ -
Other Improvements	1,567,548	136,295	-	1,703,843
Machinery & Equipment	-	-	-	-
Total Accumulated Depreciation	1,567,548	136,295	-	1,703,843
Other Capital Assets, Net	\$ 4,232,108	\$ (136,295)	\$ -	\$ 4,095,813
Business-Type Activities Capital, net	\$ 4,235,108	\$ (136,295)	\$ -	\$ 4,098,813

**NOTE 5 - RETIREMENT/PENSION PLANS:**

The City of Krebs maintains a defined benefit plan, Oklahoma Municipal Retirement Fund (OMRF), for employees not covered by other plans. This Plan is an agent multiple employer defined benefit pension plan.

Oklahoma Municipal Retirement Fund (OMRF)

Plan Description

The City's defined benefit pension plan, Employee Retirement System of Krebs & Krebs Utility Authority, Oklahoma (ERSKO) provides retirement and disability benefits and death benefits to plan members and beneficiaries. All employees are covered except police, firefighters, and other employees covered under a state system. Effective July 1, 1998, normal retirement for covered employees was reduced from age 65 to age 60. Elected members of the City Council shall not be considered employees solely by reason of their holding such office. Employees hired after their 60<sup>th</sup> birthday are excluded from plan membership. ERSKO is affiliated with the Oklahoma Municipal Retirement System (OMRF), an agent multiple-employer pension plan. OMRF issues a publicly available financial report that includes financial statements and required supplementary information for the fund. That report may be obtained by writing to Oklahoma Municipal Retirement System, 525 Central Park Drive, Oklahoma City, Oklahoma 73105, or by calling 1-888-394-6673.

CITY OF Krebs, OKLAHOMA  
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Funding policy

For the fiscal year ended June 30, 2013, employees were required to contribute 3.00% of annual compensation. The City was required to contribute the remaining amounts necessary to fund the pension plan, using an actuarial basis. The City's contribution rate, for the fiscal year ended June 30, 2014 was 5.17%. During the year ended June 30, 2013, the City and the employees contributed \$15,648 and \$9,101, respectively, to the OMRF. The required contribution rate changes each year, reflecting the investment earnings of the OMRF fund and the demographic experience of the participant group. The total salary as reported on Form W-2, paid to the employee during the year is used in computing the cost.

Annual Pension Cost

The City's annual pension cost of \$15,648 was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2013 actuarial valuation. As of January 1, 2012, the unfunded actuarial liabilities of \$101,961 and costs were determined using the aggregate entry age normal cost method, considering the unfunded past service requirements to be the excess of the present value of all benefits over the present value of future normal costs and current assets. The actuarial assumptions included (a) 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increase per year are based rates by age. The actuarial value of OMRF assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments by factoring in individual period adjustment, if any, for the current period and each of the nine preceding periods. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls. The remaining amortization period at June 30, 2013 was 30 years.

The contribution for the City for this plan was \$18,816 and \$15,648 for 2012 and 2013, respectively.

Schedule of Funding Progress

Historical trend information for the OMRF Employee Retirement System of Krebs, Oklahoma for the past ten years is as follows:

Actuarial Valuation Date	Value Of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Annual Covered Payroll	UAAL as a % Covered Payroll
1/1/2003	57,618	166,783	34.5%	109,166	211,044	51.7%
1/1/2004	70,543	184,669	38.2%	235,624	235,624	48.4%
1/1/2005	89,346	183,077	48.8%	141,285	141,285	66.3%
1/1/2006	96,850	199,710	48.5%	156,287	156,287	65.8%
1/1/2007	116,306	207,588	56.0%	163,368	163,368	55.9%
1/1/2008	135,088	236,291	57.2%	170,011	170,011	59.5%
1/1/2009	143,609	245,130	58.6%	161,863	161,863	62.7%
1/1/2010	166,719	261,597	63.7%	201,816	201,816	47.0%
1/1/2011	195,990	293,844	66.7%	320,671	320,671	30.5%
1/1/2012	234,025	335,986	69.7%	375,960	375,960	27.1%

\* Covered payroll is the total annualized rate of pay as of the valuation date based on actual pay for the preceding year.

CITY OF KREBS, OKLAHOMA  
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Police Department Plan

All City police department employees hired before the age of 45 are covered by a statewide cost sharing multi-employer defined benefit plan adopted under Oklahoma Statutes. This plan is operated and administered by the Oklahoma Police Pension and Retirement System (OPPRS). Under this plan, police department personnel contribute 8% of base salary and the City contributes an additional 13%. The OPPRS issues publicly available financial reports that include financial statements and required supplementary information for the fund. These reports may be obtained by writing to the Oklahoma Police Pension and Retirement System, 101 NW 63<sup>rd</sup> Street, Suite 305, Oklahoma City, Oklahoma 73116-7335 or by calling 1-800-347-6552.

The Required contribution from the City for this plan was \$30,295 and \$34,462 for 2012, and 2013, respectively. The required contribution was fulling contributed. At June 30, 2013, the system held no related-party investments of the City or of its related entities.

Fire Department Plan

All City full time or volunteer firefighters hired before the age of 45 are covered by a statewide cost sharing multi-employer defined benefit plan adopted under Oklahoma Statutes. This plan is operated and administered by the Oklahoma Firefighters Pension System (OFPS). Under this plan, police department personnel contribute 8% of base salary and the City contributes an additional 13% for full time firefighters and the City contributes \$60 per volunteer firefighter. During the year, the City only employed firefighters on a volunteer basis. The OFPS issues publicly available financial reports that include financial statements and required supplementary information for the fund. These reports may be obtained by writing to the Oklahoma Firefighters Pension System, 4545 North Lincoln Boulevard, Suite 265, Oklahoma City, Oklahoma 73105-3414 or by calling 1-800-525-7461.

The Required contribution from the City for this plan was \$1,200 and \$1,080 for 2012 and 2013, respectively. The required contribution was fulling contributed. At June 30, 2013, the system held no related-party investments of the City or of its related entities.

NOTE 6 - INSURANCE:

The City's facilities and equipment are insured with appropriate insurance policy.

NOTE 7 - DUE TO/FROM OTHER FUNDS:

As of June 30, 2013, inter-fund receivables and payables that resulted from various transactions were as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund:		
Street & Alley	\$ -	\$ 27,826
Utility Authority	125,767	-
Krebs Utility Authority:		
General Fund	-	125,767
Street & Alley:		
General Fund	27,826	-
Total All Funds	<u>\$ 153,593</u>	<u>\$ 153,593</u>

CITY OF KREBS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 8 - CHANGES IN LONG-TERM DEBT:

During the fiscal year ending June 30, 2010, the Authority entered into loan agreements with the United States Department of Agriculture Rural Development. The loans are in amounts of \$429,000 and \$650,000 with terms of 20 years for each loan. Principal payments will be deferred during the first year of the loan, during which time interest-only payments will be made. The loan will be amortized over the remaining 19 year period. The interest-only payments of \$3,851.40 for loan 92-04 and \$16,400.66 for loan 92-05 were due on June 28, 2006.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 20, 2013:

Balance at June 30, 2012	Additions	Deductions	Balance at June 30, 2013
\$ 328,613	\$ -	\$ 19,359	\$ 309,254
497,949	-	29,323	468,626
<u>\$ 826,562</u>	<u>\$ -</u>	<u>\$ 48,682</u>	<u>\$ 777,880</u>

Debt Services Requirements to Maturity

The annual debt service requirements, including only, for long-term debt, as of June 30, 2013, are as follows:

Year Ended June 30	91-04 Principal	91-05 Principal	Interest	Total
2013 - 2014	\$ 20,193	\$ 30,596	\$ 32,083	\$ 82,872
2014 - 2015	21,068	31,922	29,882	82,872
2015 - 2016	21,981	33,305	27,586	82,872
2016 - 2017	22,933	34,748	25,191	82,872
2017 - 2018	23,927	36,252	22,693	82,872
2019 - 2023	136,119	206,245	71,996	414,360
2024 - 2026	63,033	95,558	7,153	165,744
Total	<u>\$ 309,254</u>	<u>\$ 468,626</u>	<u>\$ 216,584</u>	<u>\$ 994,464</u>

NOTE 9 - PROPRIETARY FUNDS WORKING CAPITAL:

The net working capital of the enterprise fund (current assets less current liabilities) was \$32,180 at June 30, 2013.

NOTE 10 - SUBSEQUENT EVENTS:

Management has evaluated subsequent events through the date of the audit report, which is the date the financial statements were available to be issued and has determined that no additional information needs to be added to the financial statements.

CITY OF KREBS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

Budgetary Accounting

The City prepares its budget on the cash basis of accounting for all revenues. The modified accrual basis of accounting is used for the budgeting of expenditures with the exception of the net effect of certain year-end accruals.

Budget Law

The City prepares its annual operating budget under the provision of the Estimate of Needs, Title 68 Section 3002. The Estimate of Needs provides the original budgeting methodology and does not provide as much flexibility as the Municipal Budget Act. In accordance with those provisions, the following process is used to adopt the annual budget:

A. Legal Deadlines:

1. Governing Body must begin preparing the Estimate of Needs and report of revenues, first Monday in August.
2. Excise Board convenes July 1, to set schedule for public meetings.
3. Prepare Estimate of Needs by September 1.
4. Submit financials and needs estimate to county excise board.
5. Publication affidavit filed at least 5 days after budget filing.

B. Budget Content:

1. Financial Statements/Estimate of Needs is a required form available from the State Auditor's Office.
2. Sinking Fund Budget included on the form.
3. Cash Fund Appropriation forms available from State Auditor.
4. Budget Amendment forms are also from the State Auditor.

C. Other Provisions:

1. Estimated revenue of the General Fund is limited to 90% of prior year recurring revenue plus unencumbered and unreserved fund balance carryover.
2. Long form required budget to be departmentalized into the following accounts:
  - I. Personal services
  - ii. Maintenance and operations
  - iii. Capital Outlay
3. Public Utilities may be operated in a separate fund without appropriation.

CITY OF KREBS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
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4. Budget amendments:

- I. Department head and governing body approval required and excise Board written notification.
- ii. Supplemental Appropriations of Fund Decreases - department head and governing body approval, and approval by the county excise board.

5. Every municipality is required to adopt a budget, which shall contain estimates of expenditures and revenues, including probable income by source, for the budget year; provided, that all municipalities may use estimated fund balances if final certified fund balances are not available. The Budget shall be in a format similar to the Estimate of Needs or, at the municipality's discretion.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees  
City of Krebs  
Krebs, Oklahoma

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Krebs, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Krebs, Oklahoma's basic financial statements, and have issued my report thereon dated January 20, 2015 which did not include Management's Discussion and Analysis or budgetary comparison schedules.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered City of Krebs, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Krebs, Oklahoma's internal control. Accordingly, I do not express an opinion of the effectiveness of City of Krebs, Oklahoma's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Krebs, Oklahoma's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion of the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,



Ralph Osborn  
Certified Public Accountant  
Bristow, Oklahoma  
January 20, 2015